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September 30, 2010

Mr. Russell Golden
Financial Accounting Standard Board (FASB)
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Exposure Draft – *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*

File Reference No. 1810-100

Dear Mr. Golden:

MetLife Inc. (MetLife) appreciates the opportunity to provide comments on the proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities* (the ED). MetLife is a leading provider of individual and institutional life and property & casualty insurance, employee benefits and financial services with operations throughout the United States and the regions of Latin America, Europe and Asia Pacific.

MetLife continues to believe users and preparers would benefit substantially if participants in all markets agree to a common, understandable set of accounting standards. We support FASB and International Accounting Standards Board (IASB) actions that align with that goal and result in accounting standards that best enhance users' comprehension of companies' financial information and users' decision-making processes. Although there are some similarities between the approaches that the FASB and IASB (the Boards) have taken relating to the accounting for financial instruments, there obviously are fundamental differences between the principles developed by each of the Boards. Therefore, we strongly urge the FASB and IASB to redeliberate and resolve these key differences.

The following pages present our views on the key proposed guidance in the ED. The Appendix includes responses to certain specific questions addressed to financial statement preparers.

We once again thank you for the opportunity to respond to the ED and your consideration of our observations and comments. If you have any questions regarding the contents of this letter, please do not hesitate to contact me.

Sincerely,

A handwritten signature in blue ink that reads "Robert C. Tarnok". The signature is written in a cursive style.

Robert C. Tarnok

cc: Peter M. Carlson
Executive Vice President and
Chief Accounting Officer

MetLife Views on Key Proposed ED Guidance

The financial statement framework currently being developed by the Boards emphasizes that the objective of general purpose financial reporting is to provide relevant financial information about an enterprise that is useful to present and potential equity investors, lenders, and other creditors. As those users evaluate and invest in an enterprise based on management's business strategy, it is obvious that the same should be considered in the accounting principles on recognition and measurement. The business strategy for utilizing financial assets should be the primary driver for the accounting treatment on the statement of financial position. The measurement of financial liabilities should consider whether the extinguishment or transfer of such liabilities is within management's control. In our view, the observations and recommendations expressed below are consistent with the Boards' proposed accounting framework and these basic concepts.

Scope

We agree that it is appropriate to have one accounting standard for financial instruments and that the instruments highlighted in Paragraph Nos. 4 and 5 of the ED should be excluded from the scope of the proposed standard. However, since the scope of this ED is interrelated with the proposed insurance contracts standard, including the unbundling issues relating to insurance contracts, we recommend that the FASB consider the scope of both projects simultaneously.

MetLife does not agree with the proposed criteria for applying the equity method of accounting. We believe that, in circumstances where a reporting entity has significant influence over the operational decisions of an investee, a reporting entity's financial statements should reflect its share of the operational results of the investee. We note that the proposal to incorporate a similarity of business criterion in the evaluation of whether the equity method should be applied runs counter to the Board's conclusion in Statement No. 94, *Consolidation of All Majority-Owned Subsidiaries*, to eliminate the previously existing "dissimilar" operations criterion in the consolidation of subsidiaries.

Classification and Measurement

In our opinion, the use of any default criteria for classifying and measuring financial instruments is counter intuitive to applying a business strategy approach. The high level criteria regarding business strategy and cash flow characteristics of the instrument that is currently articulated in the ED is all that is needed in a principles-based standard. As such, we believe all references to infrequent or occasional sales criteria should be removed. These are unnecessary qualifiers and will only lead to subjective interpretations.

The measurement of assets should reflect the value of resources available to settle obligations, which we believe reflects the business model for managing such assets. We believe the fair value of financial instruments is relevant and should be the measure of financial instruments if an entity manages such instruments such that sales may occur in response to changes in market or business risks. Although we do not propose that the classification and measurement of financial instruments be industry specific, the following is one example of how fair value of financial assets may be relevant to users of insurance enterprise financial statements. Operating earnings (i.e., net income adjusted for realized gains and losses and related offsets) is normally a key indicator used by insurance company analysts. Yet, during the recent economic crisis, there has been an increased analyst focus on book value per share based on the fair value of most financial assets. However, we do not believe changes in the fair value of financial

assets should be reflected in net income unless such instruments are managed on a fair value basis and their cash flows are primarily realized through sales.

MetLife does believe that, in certain circumstances, amortized cost is the appropriate measurement for certain debt instruments. These circumstances include instruments for which there is essentially no stand ready exit market and it is almost certain that cash flows will be realized through the collection or payment of interest and principal. In these cases, the fair value of the instrument would not be relevant in measuring a company's available resources

With respect to financial liabilities, our view is that the measurement should generally be amortized cost. Financial liabilities should only be measured at fair value in the statement of financial position if they are managed on a fair value basis (for example, derivatives). We acknowledge that there has been much discussion and debate regarding the desire to have symmetry in the asset and liability measurement models if they are managed together as part of a business strategy. However, assets and liabilities have very different characteristics as assets are mostly managed to and not with liabilities, which by their nature are not within the control of the reporting entity. Further, if monetization of financial liabilities is restrictive (ability to settle/transfer), gains and losses from changes in fair value of the liabilities is of little relevance to the users of financial statements.

In summary, we believe the principle for subsequent measurement should reflect management's ability and intent for both financial assets and financial liabilities. The desire for balance sheet matching should not override this fundamental principle. Forcing the measurement of financial assets to follow the characteristics of liabilities for balance sheet matching does not reflect real economics and is not consistent with the proposed framework for financial position presentation and measurement. The symmetry between assets and liabilities should be retained for income and expense recognition which together reflect an entity's performance.

Impairment

MetLife is supportive of a single impairment model for all debt instruments that allows for more timely recognition of expected credit losses and reversals of previous impairments. However, we disagree with the immediate recognition of expected losses and the restrictions on using forward-looking information.

In our opinion, any new impairment model should leverage the guidance in the current U.S. GAAP securities impairment model since we do not feel that model's fundamental principles are flawed. In the spirit of having one impairment model for all debt instruments, we recommend simply amending the model to include an impairment evaluation on a pooled basis.

For investments evaluated on a pooled basis, credit losses should be recognized when assumptions of such losses estimated in the acquisition price change or as the expected loss emerges through time. As instrument specific actual identifiable credit impairments emerge, that investment may be removed from the pool and impaired on an individual basis from that point forward. The remaining pool's expected loss allowance would then be re-evaluated taking into consideration all available relevant and reliable information including information related to the removed instrument. While this illustrates one way to estimate credit impairment on a pooled basis, we would strongly recommend that any guidance be illustrative but not prescriptive; the determination of when and how to evaluate investments on a pooled basis should be based on how the financial instruments are managed.

Under our proposed impairment model, we would expect that the types of financial assets that would lend themselves to pooling for impairment recognition would be those investments that would be classified at amortized cost under our proposed classification principles. We would also expect that financial assets

that would be assessed for impairment individually, and thus typically only recognize impairments when actual losses occur, would generally be classified as fair value through other comprehensive income under our proposed classification principles.

With respect to the use of forward-looking information for estimating impairments, we understand there is an element of uncertainty with forecasts but it is equally unrealistic to assume that current conditions will remain unchanged for the life of an asset. Ignoring this information could result in establishing insufficient or excessive allowances, depending on the current position in the economic cycle and is also inconsistent with the manner in which credit risk is considered in pricing or how market participants determine fair value. Therefore, we believe that forward-looking information that is reasonably estimated should be used along with historical and current information. The forecast period is not necessarily the life of the investment; in most cases it will be much shorter. Any uncertainty in the forecast can be addressed through disclosures requirements.

We do not believe that immediate recognition of losses that are expected to emerge over the life of the instrument meets the objective of “more timely” recognition or that it is even relevant information for measuring resources reflected on the statement of financial position. Since actual losses generally do not occur at inception and the pricing of the instrument inherently includes an entity’s current estimate of expected loss at inception, immediate loss recognition does not accurately reflect loss emergence.

Hedge Accounting

Considering the conceptual and operational difficulties that exist in applying current U.S. GAAP hedge accounting guidance, MetLife is supportive of a simplified approach to accounting for derivatives and hedging. We expect that many of the proposed changes will help reduce the complexity in qualifying for hedge accounting and better reflect the economics of the hedging strategy. We support lowering the threshold to qualify for an accounting hedge from highly effective to reasonably effective as well as the streamlining of hedge documentation through the elimination of the existing evaluation (initial and ongoing) quantitative effectiveness assessment requirements.

However, the ED does introduce a requirement for entities to recognize ineffectiveness for “under hedges” in cash flow hedge accounting. We believe that, when the cumulative change in fair value of the hedging instrument is less than the cumulative change in the hedged item, no ineffectiveness should be recognized in earnings related to the under hedge. The impact of recognizing such ineffectiveness in earnings would be to defer a nonexistent gain or loss on the hedging instrument through other comprehensive income and to recognize in earnings a nonexistent loss or gain on the hedged item.

The proposed ED guidance eliminates an entity’s ability to electively dedesignate a hedging relationship. We are not aware of practice issues or abuses arising from elective dedesignation and do not support changing accounting guidance in this area. Hedge accounting by its nature is elective and, therefore, the ability to discontinue it is consistent with this notion.

Appendix

The following are responses to questions contained in the ED that are relevant to MetLife as a financial statement preparer.

Scope

Question 1: Do you agree with the scope of financial instruments included in this proposed Update? If not, which other financial instruments do you believe should be excluded or which financial instruments should be included that are proposed to be excluded? Why?

We agree with the scope of financial instruments included in the ED. However, we recommend that the FASB also consider the scope of both the financial instruments and insurance contracts projects simultaneously and provide clarity regarding the treatment of features of insurance contracts that would be unbundled and fall within the scope of the ED.

Question 3: The proposed guidance would require deposit-type and investment contracts of insurance and other entities to be measured at fair value. Do you agree that deposit-type and investment contracts should be included in the scope? If not, why?

We agree that deposit-type and investment contracts, where there is de minimus insurance risk, should be included in scope of the ED. However, until the insurance standard is finalized (i.e., the definition of an insurance contract is finalized and the mechanics of unbundling are fully vetted), the scope of what will be considered deposit-type or investment contracts may change. Any significant changes may impact our view on the appropriateness of being in the scope of the ED.

We believe that amortized cost is the appropriate measurement model for most if not all deposit-type and investment contracts. The basis for this view is that, in most cases, amortized cost is the amount for which these contracts will normally be settled. This is especially true for investment contracts since settlement typically occurs at maturity unless the policyholder surrenders the contract. Absent a sale of a book of business, there is generally no other way to extinguish an investment contract liability; there is no secondary market for such financial instruments. Effectively these contracts are de facto “held to maturity”.

Question 4: The proposed guidance would require an entity to not only determine if they have significant influence over the investee as described currently in Topic 323 on accounting for equity method investments and joint ventures but also to determine if the operations of the investee are related to the entity’s consolidated business to qualify for the equity method of accounting. Do you agree with this proposed change to the criteria for equity method of accounting? If not, why?

We disagree with the proposed guidance that would limit the use of the equity method of accounting by requiring an entity to have both significant influence over the investee and the investee’s operations to be related to the investor’s consolidated business. The requirement that the investee’s and investor’s businesses be related in order for the investor to apply the equity method of accounting is inconsistent with the Accounting Standards Codification (ASC) Topic 810 guidance under which consolidation is required for all entities when control is present regardless of differences between the parent’s and subsidiaries’ businesses.

The Board, in its deliberation of the proposed accounting for equity method investments, observed that “...the only way to realize gains or losses from equity securities is to sell the equity securities as

compared to debt securities, which can be held for collection of contractual cash flows” (Paragraph No. BC24). The Board’s assertion may hold true for private equity funds that invest in the equity securities of other entities and that are controlled by a general partner where the limited partners hold no participative rights. Most private equity funds and similar entities are investment companies or follow the investment company guide and, therefore, are effectively already reported at fair value. However, with respect to certain joint ventures that are accounted for under the equity method, we believe that the Board’s observation may be an over-generalization about the cash flow characteristics of equity method investments. Often the cash flows from certain joint ventures include distributions of rental income (in the case of real estate joint ventures) and interest income (in the case of mezzanine debt ventures). Most investors in these types of ventures are investing for current income over the long-term and generally not for short-term gains.

Further, we believe that the Board did not fully consider the various reasons why investors form joint ventures such as the sharing the risk of ownership of properties and taking advantage of the synergies of the joint venture partners. In many cases, these types of joint ventures are merely extensions of other asset classes of the investor. For example, many real estate joint ventures are managed by the investor in the same manner as the investor’s wholly-owned real estate portfolios. Therefore, we believe that use of the equity method best reflects the investor’s position in the underlying activities of the venture. We urge the Board to allow for the continued use of equity method of accounting by investors that hold significant influence over the investee, without regard to the relationship between the investee and investor’s business operations.

Initial Measurement

Question 8: Do you agree with the initial measurement principles for financial instruments? If not, why?

We agree with the principles for initial measurement of financial instruments. However, we recommend that Paragraph No. 13 be modified to specifically include liabilities such that it is clear that assets and liabilities will have the same initial measurement principles.

Question 9: For financial instruments for which qualifying changes in fair value are recognized in other comprehensive income, do you agree that a significant difference between the transaction price and the fair value on the transaction date should be recognized in net income if the significant difference relates to something other than fees or costs or because the market in which the transaction occurs is different from the market in which the reporting entity would transact? If not, why?

We agree that conceptually a significant difference between the transaction price and the fair value on the acquisition date should be recognized in net income. However, we believe that the qualifications of such differences could be difficult and complex. Please note the observations in our response to Question Nos. 10 and 12.

Question 10: Do you believe that there should be a single initial measurement principle regardless of whether changes in fair value of a financial instrument are recognized in net income or other comprehensive income? If yes, should that principle require initial measurement at the transaction price or fair value? Why?

We believe that there should be a single initial measurement principle regardless of whether changes in fair value of a financial instrument are recognized in net income or other comprehensive income. We

believe the initial measurement of a financial instrument should be at the transaction price, as it generally represents the best estimate of fair value at the transaction date.

Question 11: Do you agree that transaction fees and costs should be (1) expensed immediately for financial instruments measured at fair value with all changes in fair value recognized in net income and (2) deferred and amortized as an adjustment of the yield for financial instruments measured at fair value with qualifying changes in fair value recognized in other comprehensive income? If not, why?

Yes, we agree. However, to clarify the guidance, we recommend that Paragraph No. 13 be amended to explicitly state that is applicable to liabilities as well as assets in both situations.

Question 12: For financial instruments initially measured at the transaction price, do you believe that the proposed guidance is operational to determine whether there is a significant difference between the transaction price and fair value? If not, why?

We believe that in most cases the transaction price can be used as a practical expedient for fair value in the initial measurement of financial instruments. As a result, in our view a requirement that entities quantify differences between transaction price and fair value is unnecessary.

Subsequent Measurement

Question 13: Do you believe the default measurement attribute for financial instruments should be fair value? If not, why? Do you believe that certain financial instruments should be measured using a different measurement attribute? If so, why?

Establishing a default measurement attribute for financial instruments contradicts utilizing the investment business strategy to determine the classification and measurement of financial instruments. We do not agree with the inclusion of any criteria that is essentially rules-based. The high level principles-based criteria of business strategy and characteristics of the instruments should be the key drivers for the accounting. We believe guidelines such as the following would be appropriate for classifying and measuring financial assets:

- Financial instruments whose cash flows are primarily realized through the sale of the instruments or managed on a fair value basis should be accounted for at fair value through income.
- Financial instruments whose cash flows are primarily realized through the collection or payment of interest and principal and are not managed on a fair value basis should be accounted for at amortized cost.
- Financial instruments whose cash flows are primarily realized through the collection of interest and principal but for which sales are anticipated in response to changes in market or business risks should be measured at fair value with changes in fair value recognized through other comprehensive income.

We recognize that this three classification approach is inconsistent with current IFRS and proposed FASB models. However, we believe that the above classifications are most consistent with the proposed framework, based on the premise that a statement of financial position should represent the appropriate value of resources available to a company and net income should reflect how well an entity's inflows of economic resources are managed compared to its outflows and obligations.

Question 14: The proposed guidance would require that interest income or expense, credit impairments and reversals (for financial assets), and realized gains and losses be recognized in net

income for financial instruments that meet the criteria for qualifying changes in fair value to be recognized in other comprehensive income. Do you believe that any other fair value changes should be recognized in net income for these financial instruments? If yes, which changes in fair value should be separately recognized in net income? Why?

We believe that additional consideration should be given to permitting foreign exchange to be recognized in net income. Absent an impairment or a strategy to realize cash flows from sale of financial assets, unrealized gains and losses normally would reverse as time to maturity decreases. In contrast, valuation impacts relating to foreign currency exchange rates fluctuation do not necessarily reverse and, therefore, are more appropriately reflected in net income.

Question 15: Do you believe that the subsequent measurement principles should be the same for financial assets and financial liabilities? If not, why?

We believe that the subsequent measurement principles should be the same for financial assets and financial liabilities. As indicated in our response to Question No. 3, amortized cost is the most appropriate measurement for liabilities that effectively have no exit mechanism (absent a sale of business or policyholder lapses or surrenders). As such, amortized cost should be permitted based on the liabilities characteristics and not restricted to situations where the assets backing that liability are at cost. We do not believe in forced symmetry on the balance sheet if it comes at the expense of having to present fair value information for liabilities that may not be relevant or comparable.

Question 16: Do you agree that reclassifications should be prohibited? If not, in which circumstances do you believe that reclassifications should be permitted or required? Why?

We appreciate the Board's concern about entities reclassifying financial instruments in an attempt to manage their earnings (BC105). However, we believe that an outright prohibition on transfers unfairly punishes entities with legitimate business reasons to transfer an instrument between measurement categories. While such transfers should be rare, transfers should be permitted if the entity's business model objective for the financial instrument changes so that its previous model assessment would no longer apply.

Question 17: The proposed guidance would require an entity to measure its core deposit liabilities at the present value of the average core deposit amount discounted at the difference between the alternative funds rate and the all-in-cost-to-service rate over the implied maturity of the deposits. Do you believe that this remeasurement approach is appropriate? If not, why? Do you believe that the measurement amount should be disclosed in the notes to the financial statements rather than presented on the face of the financial statements? Why or why not?

We do not believe that the remeasurement approach for core deposit liabilities in the proposed guidance is appropriate. In our opinion, this is an inopportune time to introduce another valuation methodology, particularly one that has such a narrow application.

We believe that the use of entity-specific alternative funds rates and all-in-cost-to-service rates in the present value determination will result in a lack of comparability across entities. These deposits are typically not traded and it is likely, given the entity-specific rates used, that this remeasurement approach would not be indicative of the value an entity would receive if the deposits were traded (or if the entity itself were sold). Amortized cost, consistent with current guidance, is the most appropriate measurement for core deposit liabilities.

Question 18: Do you agree that a financial liability should be permitted to be measured at amortized cost if it meets the criteria for recognizing qualifying changes in fair value in other comprehensive income and if measuring the liability at fair value would create or exacerbate a measurement attribute mismatch? If not, why?

We agree. However, we do not believe the additional criteria to carry a liability at amortized cost is necessary, especially in cases where there is no exit mechanism for such liability.

Question 19: Do you believe that the correct financial instruments are captured by the criteria in the proposed guidance to qualify for measurement at the redemption amount for certain investments that can be redeemed only for a specified amount (such as an investment in the stock of the Federal Home Loan Bank or an investment in the Federal Reserve Bank)? If not, are there any financial instruments that should qualify but do not meet the criteria? Why?

We believe that the correct financial instruments are captured by the criteria to qualify for measurement at their redemption amounts.

Question 20: Do you agree that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to a debt instrument measured at fair value with qualifying changes in fair value recognized in other comprehensive income in combination with other deferred tax assets of the entity (rather than segregated and analyzed separately)? If not, why?

We support the current treatment of deferred tax assets associated with debt securities. However, we do not believe that the financial instruments standard is the appropriate place to address deferred tax assets and tax strategies. We recommend this guidance be addressed separately.

Question 21: Do you agree with the Board's application of the proposed subsequent measurement guidance to convertible debt? If not, why?

We disagree with the Board's proposed subsequent measurement guidance relating to convertible debt since, assuming no credit impairment, principal will be returned in the form of equity instruments. We do not believe that the form of repayment changes the character of the asset.

Question 28: Do you believe that the proposed criteria for recognizing qualifying changes in fair value in other comprehensive income are operational? If not, why?

While we agree that the proposed criteria for recognizing qualifying changes in fair value in other comprehensive income are operational, we believe that the guidelines we have highlighted in our response to Question No. 13 are principles-based and better reflect the business strategy for financial assets.

Question 29: Do you believe that measuring financial liabilities at fair value is operational? If not, why?

While we do not have significant operational concerns, we generally do not agree with measuring financial liabilities at fair value. Please refer to our responses to Question Nos. 3, 13, 15 and 18.

Question 30: Do you believe that the proposed criteria are operational to qualify for measuring a financial liability at amortized cost? If not, why?

We believe the proposed criteria are operational. However, as previously discussed, in our opinion financial liabilities generally should be measured at amortized cost regardless of the measurement of assets supporting such liabilities.

Question 31: The proposed guidance would require an entity to measure its core deposit liabilities at the present value of the average core deposit amount discounted at the difference between the alternative funds rate and the all-in-cost-to-service rate over the implied maturity of the deposits. Do you believe that this remeasurement approach is operational? Do you believe that the remeasurement approach is clearly defined? If not, why, if any, additional guidance is needed?

We believe that the remeasurement approach is clearly defined. In our opinion, the remeasurement approach would be operational but it would take time to implement.

Presentation

Question 32: For financial liabilities measured at fair value with all changes in fair value recognized in net income, do you agree that separate presentation of changes in an entity's credit standing (excluding changes in the price of credit) is appropriate, or do you believe that it is more appropriate to recognize the changes in an entity's credit standing (with or without changes in the price of credit) in other comprehensive income, which would be consistent with the IASB's tentative decisions on financial liabilities measured at fair value under the fair value option? Why?

If certain financial liabilities are required to be measured at fair value, MetLife believes that there should be a separate presentation of changes in credit for such liabilities recorded in other comprehensive income (other than trading liabilities).

Question 33: Appendix B describes two possible methods for determining the change in fair value of a financial liability attributable to a change in the entity's credit standing (excluding the changes in the price of credit). What are the strengths and weaknesses of each method? Would it be appropriate to use either method as long as it was done consistently, or would it be better to use Method 2 for all entities given that some entities are not rated? Alternatively, are there better methods for determining the change in fair value attributable to a change in the entity's credit standing, excluding the price of credit? If so, please explain why those methods would better measure that change.

No matter how the price of credit is excluded, it is going to be an accounting estimate. As such, we do not believe one is necessarily better than the other and a method should not be prescribed. It should be up to each entity to select the most appropriate method including whether or not credit changes of comparable entities or indexes should be used in computing the attribution. To the extent the final standard requires separate presentation that excludes the price of own credit, we recommend disclosures to describe the method used.

Question 34: The methods described in Appendix B for determining the change in fair value of a financial liability attributable to a change in an entity's credit standing (excluding the changes in the price of credit) assume that the entity would look to the cost of debt of other entities in its industry to estimate the change in credit standing, excluding the change in the price of credit. Is it appropriate to look to other entities within an entity's industry, or should some other index, such as

all entities in the market of a similar size or all entities in the industry of a similar size, be used? If so, please explain why another index would better measure the change in the price of credit.

See the response to Question No. 33.

Credit Impairment

Question 37: Do you believe that the objective of the credit impairment model in this proposed Update is clear? If not, what objective would you propose and why?

See response to Question No. 38.

Question 38: Do you believe that entity should immediately recognize a credit impairment in net income when an entity does not expect to collect all contractual amounts due for originated financial asset(s) and all amounts originally expected to collected for purchased financial asset(s) as proposed in this Update, or do you believe that an entity should recognize initially expected credit losses over the life of the financial instrument as a reduction in interest income, as proposed in the IASB Exposure Draft on impairment?

We agree with the Board's objectives in developing a single, comprehensive impairment model for all financial assets. We also agree with the Board's objective that the credit impairment model should be based on an entity's assessment of cash flows expected to be collected with a credit impairment recognized when the entity does not expect to collect all contractual amounts due or amounts originally expected to be collected. However, we do not believe that this would occur immediately subsequent to the acquisition of the financial instrument since the transaction price of the acquired financial instrument would have contemplated expected losses of principal and interest.

We do not agree with the proposed limitation on the consideration of future events and economic conditions. In addition, we are concerned that this proposed limitation could result in unnecessary earnings volatility and could result in unrecognized credit impairments that would have otherwise be recorded had negative expectations of future economic conditions been permitted to be included in cash flow assessments. We believe the use of all available information about past events and potential future conditions, consistent with existing guidance, would provide users of financial statements with a view more consistent with management's overall expectations of future cash flows.

Question 39: Do you agree that a credit impairment should not result from a decline in cash flows expected to be collected due to changes in foreign exchange rates, changes in expected prepayments, or changes in a variable interest rate? If not, why?

We agree with the Board and its rationale that these factors should not result in the recognition of a credit impairment.

Question 40: For a financial asset evaluated in a pool, the proposed guidance does not specify a particular methodology to be applied by individual entities for determining historical loss rates. Should a specific method be prescribed for determining historical loss rates? If yes, what specific method would you recommend and why?

We share the Board's objectives of developing high-quality principles-based accounting standards, and agree with the Board in not specifying a particular methodology when determining historical loss rates. As discussed in our response to Question No. 38, we believe that all available information should be included when assessing the future cash flows from financial assets on an individual and pooled basis,

with historical loss rates representing one significant example of information to be included in these ongoing assessments.

Question 41: Do you agree that if an entity subsequently expects to collect more cash flows than originally expected to be collected for a purchased financial asset, the entity should recognize no immediate gain in net income but should adjust the effective interest rate so that the additional cash flows are recognized as an increase in interest income over the remaining life of the financial asset? If not, why?

We agree with the Board that a subsequent increase in expected cash flows, to the extent it does not represent a reversal of a previously recognized credit impairment, should result in a prospective adjustment to the effective interest rate for a debt security. We believe this is consistent with the Board's objectives with respect to debt instruments measured at fair value with qualifying changes in other comprehensive income and the business strategy criteria to qualify for this treatment.

Question 42: If a financial asset that is evaluated for impairment on an individual basis has no indicators of being individually impaired, the proposed guidance would require an entity to determine whether assessing the financial asset together with other financial assets that have similar characteristics indicates that a credit impairment exists. The amount of the credit impairment, if any, would be measured by applying the historical loss rate (adjusted for existing economic factors and conditions) applicable to the group of similar financial assets to the individual financial asset. Do you agree with this requirement? If not, why?

We agree with the Board's principles-based objectives in not providing requirements on how entities should identify financial assets that are to be evaluated individually or collectively in a pool. We agree with the Board in the expansion of the use of pools when assessing credit impairment from loans and receivables under current guidance to all financial assets under the proposed guidance.

We evaluate our available-for-sale debt securities on a quarterly basis for impairment on a security-by-security basis. This evaluation considers a wide range of factors about the issuers of these securities, and we use our best judgment in evaluating the present value of cash flows expected to be collected when measuring credit impairments under current guidance. We agree with the Board (Paragraph No. BC181) that these debt securities have unique risk characteristics; it is therefore conceivable that entities will continue to evaluate a significant portion of their debt securities on an individual basis under the proposed guidance.

We request that the Board reconsider its explicit requirement to consider a pooled or collective approach for financial assets that have no indicators of being individually impaired, specifically for debt securities, or provide additional clarification on the relevance of this requirement for debt securities given their unique risk characteristics that in most cases would preclude them from being included in a pool.

Question 46: Do you agree that an entity should assume that economic conditions existing at the reporting date would remain unchanged in determining whether a credit impairment exists, or do you believe that an expected loss approach that would include forecasting future events or economic conditions that did not exist at the end of the reporting period would be more appropriate? Are both methods operational? If not, why?

As indicated in our responses to Question Nos. 38 and 40, we do not believe that an entity should be limited to using historical information and current conditions in determining whether a credit impairment exists. We believe an estimate of impairment should consider expectations beyond the balance sheet date if it is based on reasonable forecasts.

Question 47: The proposed guidance would require that an appropriate historical loss rate (adjusted for existing economic factors and conditions) be determined for each individual pool of similar financial assets. Historical loss rates would reflect cash flows that the entity does not expect to collect over the life of the financial assets in the pool. Would such an approach result in a significant change in practice (that is, do historical loss rates typically reflect cash flows that the entity does not expect to collect over the life of the financial assets in the pool or some shorter period)?

As described above, we do not agree that an entity should be precluded from using forecasts of future events or economic conditions. We currently use all available information when estimating collectibility of future cash flows. The actual impairment recorded will generally include our estimate of the loss emergence period which necessarily uses forward looking information. Therefore, precluding the use of forward-looking information would be a change in practice.

Interest Income

Question 48: The proposed guidance would require interest income to be calculated for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income by applying the effective interest rate to the amortized cost balance net of any allowance for credit losses. Do you believe that the recognition of interest income should be affected by the recognition or reversal of credit impairments? If not, why?

See response to Question No. 49.

Question 49: Do you agree that the difference in the amount of interest contractually due that exceeds interest accrued on the basis of an entity's current estimate of cash flows expected to be collected for financial assets should be recognized as an increase to the allowance for credit losses? If not, why?

While we understand the concept that would support this principle, we believe that, due to significant complexity and subjectivity, potential benefits to the financial statement users do not outweigh the cost.

Question 50: Do you believe that the interest income recognition guidance should be the same for all financial assets?

We believe that the interest income recognition guidance should be the same for all financial assets.

Question 51: Do you believe that the implementation guidance and illustrative examples included in this proposed Update are sufficient to understand the proposed credit impairment and interest income models? If not, what additional guidance or examples are needed?

We believe additional illustrations with respect to interest income recognition, specifically for pooled financial assets for which a credit impairment is recognized, would be helpful to all preparers of financial statements.

Hedge Accounting

Question 56: Do you believe that modifying the effectiveness threshold from *highly effective* to *reasonably effective* is appropriate? Why or why not?

We believe this modification is appropriate based on the fact that all ineffectiveness is recorded in net income. Consistent with this modification, we recommend that the fair value portfolio criteria also be amended such that it is also more qualitative.

Question 57: Should no effectiveness evaluation be required under any circumstances after inception of a hedging relationship if it was determined at inception that the hedging relationship was expected to be reasonably effective over the expected hedge term? Why or why not?

We agree with the proposed guidance requiring an entity to only reassess effectiveness if changes in circumstances suggest that a hedging relationship will no longer be reasonably effective. If circumstances change, we would expect to re-evaluate the assertion of reasonably effective. In most cases this change will arise from a change in or amount of the hedged item that is outstanding.

Question 58: Do you believe that requiring an effectiveness evaluation after inception only if circumstances suggest that the hedging relationship may no longer be reasonably effective would result in a reduction in the number of times hedging relationships would be discontinued? Why or why not?

Based on the nature of our hedging strategies, we do not believe this change will materially reduce the number of hedging relationships which will be discontinued.

Question 61: Do you foresee any significant operational concerns or constraints in calculating ineffectiveness for cash flow hedging relationships? If yes, what constraints do you foresee and how would you alleviate them?

While we do not necessarily agree with ineffectiveness from under hedges being recorded in net income, we do not foresee any operational issues with calculating this ineffectiveness.

Question 62: Do you foresee any significant operational concerns or constraints in creating processes that will determine when changes in circumstances suggest that a hedging relationship may no longer be reasonably effective without requiring reassessment of the hedge effectiveness at each reporting period? If yes, what constraints do you foresee and how would you alleviate them?

We do not anticipate significant operational concerns or constraints involving processes to determine when changes in circumstances suggest that a hedging relationship may no longer be reasonably effective.

Question 63: Do you foresee any significant operational concerns or constraints arising from the inability to discontinue fair value hedge accounting or cash flow hedge accounting by simply dedesignating the hedging relationship? If yes, what constraints do you foresee and how would you alleviate them?

We do not anticipate significant operational concerns or constraints arising from the inability to discontinue fair value hedge accounting or cash flow hedge accounting by dedesignating the hedging relationship.

Question 64: Do you foresee any significant operational concerns or constraints arising from the required concurrent documentation of the effective termination of a hedging derivative attributable to the entity's entering into an offsetting derivative instrument? If yes, what constraints do you foresee and how would you alleviate them?

We do not anticipate any significant operational concerns or constraints arising from the required concurrent documentation.

Question 65: Do you agree with the proposed disclosure requirements? If not, which disclosure requirement do you believe should not be required and why?

We agree with the proposed disclosure requirements.

Effective Date and Transition

Question 68: Do you agree with the transition provision in this proposed Update? If not, why?

We agree with the transition provisions in the ED.

Question 69: Do you agree with the proposed delayed effective date for certain aspects of the proposed guidance for nonpublic entities with less than \$1 billion in total consolidated assets? If not, why?

We share similar concerns with those Board members who believe a delay in the effective date would call into question the cost-benefit of the financial instruments standard. We believe that if the ED is amended to address the concerns highlighted in this and other comment letters, the implementation burden would be much less severe and a delay for nonpublic companies would not be needed.

Question 70: How much time do you believe is needed to implement the proposed guidance?

As indicated in certain of the responses above, there are some areas of the proposed guidance that we believe are operationally complex. If these areas are simplified, we estimate that we could implement required accounting changes approximately two years after guidance is finalized. However, as indicated above, we recommend that the effective date be aligned with the effective date of the proposed insurance contracts standard.

Question 71: Do you believe the proposed transition provision is operational? If not, why?

We believe the proposed transition provision is appropriate and operational.